

What's insurance to value anyway?

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Recently a client asked, "Why do I have to be careful about insuring for the full value of my stuff? I'll never lose it all anyway."

My answer? Insurance to value is a **big** deal, possibly a disaster, and it's not the place to try to save money.

Here are some reasons why you want to be careful ~

- Most people underestimate values of buildings, business contents, equipment and supplies. Perhaps they bought it a long time ago, or in small quantities, or used. It can be hard to focus on today's prices for replacement cost.
- When you need to replace you may not be able to wait or find the same 'deal' you got before. And taxes and shipping can add 10 to 15%.
- Many insurance policies have a co-insurance clause which says if you've low-balled your values they won't pay the full loss – even for a small claim.

A simple example ~

Let's say you've got \$100K in furniture and equipment and you only declare \$50K. There's a small electrical fire from a coffee maker left on over the weekend and fire, smoke and water damage result in a \$35,000 loss. A break-in and theft could amount to the same. The co-insurance clause on your policy means the adjuster offers you 50% of your loss, less your \$1,000 deductible, or \$16,500. If you have to replace everything to meet a customer deadline, will you still be able to meet payroll next month?

Hey, you saved about \$1,000 in premium by under-insuring - but now you have what's effectively a \$17,500 deductible! If you had thought this through, you would have declared the total value and raised the deductible to perhaps \$2,500. That might have cost you another \$700 per year but paid the full loss and kept you solvent.

Some action steps to save your bacon ~

- List all your stuff in appropriate categories (furniture, equipment, supplies, etc.) and use reasonable replacement costs – new.
- Add details when necessary to completely describe the items – a table is usually a table, but one antique or computer can be vastly different from another.
- Take pictures, keep receipts, note serial numbers and store everything off-site – remember you will need to 'prove' your loss including what it was and that you actually owned it!
- Update your list each year, increase values for inflation, and give a copy to your broker prior to renewal.